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PEOPLES OIL LIMITED

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ANNUAL
REPORT

ANNUAL GENERAL MEETING

Shareholders are cordially invited to attend the Company's Annual General Meeting which will be held on Tuesday, April 25th, 1989 at 9:30 a.m. in the Viking Room at the Calgary Petroleum Club, 319 - 5th Avenue S.W., Calgary, Alberta.

1988 ANNUAL REPORT

Letter To The Shareholders

This report is submitted on behalf of the Board of Directors and will present a review of important developments which have affected the Company during the past year.

The Company

Peoples Oil Limited is based in Calgary and is actively engaged in oil and gas exploration and development. Activities continue to be concentrated in the United States, although some efforts are now being expended toward the identification and development of oil and gas reserves in Alberta and in western Saskatchewan.

Peoples' producing properties are located in the Rocky Mountain region of the U.S., namely, in Wyoming, Colorado, and New Mexico.

Peoples continues to work closely with Mon-Oil Limited, the largest shareholder of Peoples. Mon-Oil is the

main developer of prospects in which Peoples participates.

Crude Oil and Natural Gas Prices

During the past year, crude oil and natural gas prices remained very volatile. In a turbulent market environment, crude oil prices reached a low of \$12.50 U.S. per barrel (Wyoming Sweet) in October, 1988.

Similarly, natural gas prices remained relatively flat for most of our fiscal year (approximately \$1.25 per mcf). However, prices began to rise in September, 1988, reaching above \$1.50 per mcf.

Naturally, these fluctuations in oil and gas prices have a major effect on our efforts to determine the viability of oil and gas projects. However, we do expect some increase and stabilization in oil and gas prices in the future, particularly as the U.S. "gas bubble" disappears.

Main Producing Properties

Peoples' main producing properties are located in Wyoming, in the South Cole Creek (Dakota) field, and in the VTwo Draw (Frontier) area. In Colorado, wet gas is produced from the Papoose Canyon field in the Paradox Basin. There is also minor gas production from the Watenburg field in the Denver Julesburg Basin, and from the Delaware Basin in Chaves County, New Mexico.

Heretofore, our main production has been from the South Cole Creek field. However, this production has begun to decline and water has appeared recently at two of our wells.

A successful stimulation treatment was carried out on the South Cole Creek State #1 well in early September, resulting in a fourfold increase in production, from five barrels of oil per day to 23 barrels of oil per day.

PEOPLES OIL LIMITED

Letter To The Shareholders (continued)

We do not foresee any new development of reserves at South Cole Creek or VTwo Draw, given the current oil price situation. Production is deep (over 9,000 feet) and wells are relatively expensive (\$300,000.00 U.S. dry hole).

Papoose Canyon also is considered to be completely developed.

Other Projects

The proposed acquisition of properties at Burke Ranch in central Wyoming has been dropped because declining oil prices made the profitability of this area quite marginal. However, Peoples is continuing its efforts to obtain leases in the Cole Creek area, north of the South Cole Creek field. Negotiations are underway and we are confident that an agreement will soon be reached with the landowners involved, making it possible for Peoples to participate in new drilling. Peoples is primarily interested in the Cole Creek Shannon zone, with drilling at a depth of about 4,700 feet.

Our efforts to develop prospects in the North Buck Draw area of Wyoming also are continuing as the operator obtains additional seismic data and interpretation.

The North Buck Draw project, located thirty miles northeast of Casper, will involve one or two 12,000 foot Dakota sand tests, at a cost of approximately \$700,000.00 U.S. per test. Hence, Peoples will require partners if it wishes to participate. This is a high reserve area of approximately 4 bcf of natural gas per 640 acre well. Again, oil prices will have a great deal of bearing on the economic feasibility of this project.

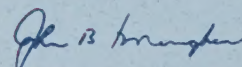
Finances

Peoples continues to enjoy a strong working capital position, with no debt of any kind. As indicated in the last report, if market conditions permit, the Company plans to undertake a share issue in order to enhance its financial position further.

Raising the Company's profile within the investment community is a priority for Peoples' management. We hope to increase our investors' knowledge of Peoples and its prospects, and cultivate greater interest in the Company's shares, through an active communications program.

We believe the future looks very promising for Peoples. Despite the challenges presented by volatile prices, increasing regulatory responsibilities, and the complexities of project development, we are confident that the Company will continue to expand and prosper.

Once again, we would like to take this opportunity to thank those persons who have contributed to Peoples during the course of the last year, including our Directors, who have provided a great deal of assistance, the staff of Mon-Oil for all of their help, and, of course, our shareholders for their encouragement and support.



John B. Maughan, P.Eng.
President and Chief Executive Officer
Calgary, Canada
March 3, 1989

Auditors Report

We have examined the consolidated balance sheet of Peoples Oil Limited as at October 31, 1988 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and

other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at October 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted

accounting principles applied on a basis consistent with that of the preceding year.

Sean Marwick
Chartered Accountants

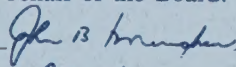
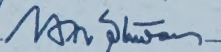
Calgary, Canada
January 27, 1989

FINANCIAL STATEMENTS

Consolidated Balance Sheet as at October 31, 1988 (with comparative figures for 1987)

	1988	1987
Assets		
Current assets:		
Cash and term deposits	\$ 1,148,822	\$ 1,047,876
Inventory	25,211	32,369
Due from affiliates	56,466	85,333
Accrued interest receivable	7,692	2,081
Income taxes receivable	2,890	—
	<u>1,241,081</u>	<u>1,167,659</u>
Petroleum and natural gas properties, at cost	1,009,190	1,088,616
Less accumulated depletion and depreciation	712,475	669,800
	<u>296,715</u>	<u>418,816</u>
Other	3,078	3,245
	<u>\$ 1,540,874</u>	<u>\$1,589,720</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Income taxes payable	\$ —	2,942
Deferred income taxes	—	26,318
	<u>—</u>	<u>29,260</u>
Deferred income taxes	198,860	228,951
Shareholders' equity:		
Share capital (Note 4)		
Authorized:		
10,000,000 common shares without nominal or par value		
Issued:		
2,095,003 common shares		
(1987 - 2,075,003 common shares)	750,200	743,200
Foreign currency translation account	(15,737)	21,376
Retained earnings	607,551	566,933
	<u>1,342,014</u>	<u>1,331,509</u>
	<u>\$ 1,540,874</u>	<u>\$ 1,586,720</u>

On behalf of the Board:

 , Director
 , Director

See accompanying notes to financial statements.

FINANCIAL STATEMENTS

Consolidated Statement of Income and Retained Earnings as at October 31, 1988 (with comparative figures for 1987)

	1988	1987
Revenue:		
Oil and gas	\$ 196,354	\$ 302,265
Royalty	9,250	18,574
Interest	91,911	75,198
	<u>297,515</u>	<u>396,037</u>
Expenses:		
Production costs	60,957	45,275
Joint venture operating costs	33,783	42,377
Depletion and depreciation	94,869	146,240
General and administrative	63,312	69,938
	<u>252,921</u>	<u>303,830</u>
Income before income taxes	44,594	92,207
Income taxes (Note 3):		
Current	42,655	41,432
Deferred	(38,679)	(31,775)
	<u>3,976</u>	<u>9,657</u>
Net income	40,618	82,550
Retained earnings, beginning of year	566,933	484,383
Retained earnings, end of year	<u>\$ 607,551</u>	<u>\$ 566,933</u>
Earnings per share	<u>\$ 0.02</u>	<u>\$ 0.04</u>

See accompanying notes to financial statements.

FINANCIAL STATEMENTS

Consolidated Statement of Changes in Financial Position as at October 31, 1988 (with comparative figures for 1987)

	1988	1987
Operating activities:		
Net income	\$ 40,618	\$ 82,550
Items not affecting working capital:		
Depletion and depreciation	94,869	146,240
Deferred income taxes	(38,679)	(1,093)
Net changes in non-cash working capital balances	(1,736)	(74,533)
	<u>95,072</u>	<u>153,164</u>
Investing activities:		
Additions to petroleum and natural gas properties	(2,418)	(90,292)
Effect of currency translation adjustments on cash flows	1,292	(9,958)
	<u>(1,126)</u>	<u>(100,250)</u>
Financing activities:		
Issue of common shares	7,000	45,900
Increase in cash and term deposits during the year	100,946	98,814
Cash and term deposits, beginning of year	1,047,876	949,062
Cash and term deposits, end of year	<u>\$ 1,148,822</u>	<u>\$ 1,047,876</u>
See accompanying notes to financial statements.		

FINANCIAL STATEMENTS

Notes to Consolidated Financial Statements as at October 31, 1988

1. Significant accounting policies:

a) Petroleum and natural gas properties:

The Company follows the full-cost method of accounting for oil and gas operations in accordance with the Canadian Institute of Chartered Accountants Accounting Guideline "Full Cost Accounting in the Oil and Gas Industry". Capitalized costs are limited to undiscounted estimated future net revenues, using prices at October 31, 1988, from production of proved reserves, after applicable income taxes and general and administrative expenses. Operations are carried out principally in the United States. Costs incurred are being depleted on the unit of production method based on estimated proven reserves. The Company has not capitalized any general and administrative expenses for the year.

b) Foreign currency translation:

The accounts of the United States subsidiary, which is accounted for as self-sustaining operation, have been translated into Canadian dollars on the following basis:

- (i) Assets and liabilities at the rate of exchange at the balance sheet date;
- (ii) Revenue and expenses at the average rate of exchange for the year.

All gains and losses arising from foreign currency translation of the United States subsidiary are included in the foreign currency translation account.

c) Joint venture accounting:

Substantially all of the Company's exploration activities are conducted jointly with others and accordingly these financial statements reflect only the Company's proportionate interest in such activities.

d) Inventories:

Inventories are recorded at the lower of cost (first in first out) and replacement cost.

2. Related party transactions:

The Company participates in joint ventures with Mon-Oil Inc., a wholly-owned subsidiary of Mon-Oil Limited, a shareholder. The terms of the joint ventures are considered comparable to similar transactions with non-related parties. Substantially all capital expenditures incurred during the year relate to these joint ventures.

Maughan Energy Limited has provided management services to the Company during the year in the amount of \$8,987 (1987 - \$9,633).

3. Income taxes:

	1988	1987
Provisions for income taxes based on combined basic Canadian federal and provincial tax rate of 48.6% (1987 - 50.2%)	\$ 21,673	\$ 46,300
Decrease in income taxes resulting from:		
Lower effective income tax rate on earnings of foreign subsidiary	(2,725)	(17,200)
Draw down of deferred income taxes accumulated at different rates	(14,972)	(19,443)
	<u>\$ 3,976</u>	<u>\$ 9,657</u>

4. Share capital:

During the year, 20,000 common shares were issued for cash of \$7,000 upon the exercise of stock purchase options.

Expiry Date	Option Price	Number Granted	Number Exercised/ Expired	Number Outstanding 1988
April 27, 1991	\$0.80	95,000	—	95,000
April 26, 1990	\$0.80	46,000	10,000	36,000
March 3, 1988	\$0.35	20,000	20,000	—
		<u>161,000</u>	<u>30,000</u>	<u>131,000</u>

FINANCIAL STATEMENTS

Notes to Consolidated Financial Statements (continued)

5. Segmented information:

The Company operates principally as an oil and gas exploration and development company.

	1988		
	Canada	United States	Total
Revenue:			
Oil and gas and royalty	\$ —	\$ 205,604	\$ 205,604
Interest	74,392	17,519	91,911
	<u>74,392</u>	<u>223,123</u>	<u>297,515</u>
Expenses:			
Production costs	—	60,957	60,957
Joint venture operating costs	—	33,783	33,783
Depletion and depreciation	—	94,869	94,869
	<u>—</u>	<u>189,609</u>	<u>189,609</u>
Segmented income before the following	<u>\$ 74,392</u>	<u>\$ 33,514</u>	<u>\$ 107,906</u>
General and administrative			63,312
Income taxes			3,976
Net income			<u>\$ 40,618</u>
Identifiable assets	<u>\$ 845,352</u>	<u>\$ 695,522</u>	<u>\$ 1,540,874</u>
	1987		
	Canada	United States	Total
Revenue:			
Oil and gas and royalty	\$ —	\$ 320,839	\$ 320,839
Interest	62,670	12,528	75,198
	<u>62,670</u>	<u>333,367</u>	<u>396,037</u>
Expenses:			
Production costs	—	45,275	45,275
Joint venture operating costs	—	42,377	42,377
Depletion and depreciation	—	146,240	146,240
	<u>—</u>	<u>233,892</u>	<u>233,892</u>
Segmented income before the following	<u>\$ 62,670</u>	<u>\$ 99,475</u>	<u>\$ 162,145</u>
General and administrative			69,938
Income taxes			9,657
Net income			<u>\$ 82,550</u>
Identifiable assets	<u>\$ 812,536</u>	<u>\$ 777,184</u>	<u>\$ 1,589,720</u>

Officers and Directors:

John B. Maughan
President, Chief Executive Officer
& Director
Calgary, Alberta

Sherry L. Cremer
Vice-President Administration,
Corporate Secretary & Director
Calgary, Alberta

H. Norman Stewart
Treasurer & Director
Calgary, Alberta

John I. Maughan
Vice President Corporate Affairs
& Director
San Francisco, California

Kenneth R. Murray
Director
Calgary, Alberta

Brett P. Maughan
Vice President Finance & Director
Seattle, Washington

Julia M. Gill
Vice President Public Relations & Director
Vancouver, British Columbia

Art Evans
Director
Calgary, Alberta

John Melnyk
Vice President Operations & Director
Calgary, Alberta

Head Office and Registered Office:

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Bank:

The Royal Bank of Canada
Main Branch
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Calgary, Alberta T2P 1C4

Registrar and Transfer Agent:

Montreal Trust
411 - 8th Avenue S.W.
Calgary, Alberta T2P 1E7
Phone: (403) 267-6800

Solicitors:

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707 - 8th Avenue S.W.
Calgary, Alberta T2P 1H5

DuMoulin, Black
1004 - 595 Howe Street
Vancouver, B.C. V6C 2T5

Exchange Listing:

Vancouver Stock Exchange
Symbol PPS

Authorized Capitalization:

10,000,000

Shares Issued:

2,095,003

